

Notice of:	EXECUTIVE
Decision Number:	EX20/2019
Relevant Officer:	Antony Lockley, Director of Strategy and Assistant Chief Executive
Relevant Cabinet Member:	Councillor Mrs Christine Wright, Cabinet Member for Housing
Date of Meeting:	25 February 2019

FUNDING FOR BLACKPOOL HOUSING COMPANY

1.0 Purpose of the report:

- 1.1 In July 2015, the Executive made a decision (EX32/2015) to provide an initial tranche of funding to the newly established Blackpool Housing Company - now more widely known as My Blackpool Home. This initial funding totalled £27.6m. At the current rate of delivery the initial tranche of funding is forecast to run out during the second half of 2019, and the Company requires a committed level of funding to build on its success to date and to continue to deliver on the objectives set for the Company by the Council.
- 1.2 The primary focus of the Company is to gain a significant portfolio of property such that it has a critical mass and can therefore directly influence the standards of accommodation and management in the private rented sector. Consequently, the initial programme strategy was focussed on achieving 800+ units over a 10 year period from the company formation in August 2015.
- 1.3 The Company has been a success and has had a demonstrably positive impact on property and people. It is now seeking to further this success by acquiring and converting/refurbishing a greater volume of problematic property, creating a larger portfolio of quality accommodation that will enable many more individuals and families to settle their lives in a secure home.

2.0 Recommendation(s):

1. To authorise the Director of Resources to arrange a further committed loan facility for the benefit of the Company in the sum of £40.8million. This loan will allow the Company to deliver the plan approved in March 2017 and to cover the period to March 2025, enabling the assembly of a portfolio of circa 950 quality, affordable homes for rent in Inner Blackpool.
2. To maintain a quarterly monitoring system and allow Public Works Loan Board resources to be transferred to the company over a period up to and

including 31 March 2025.

3. To remove the £10m per year drawdown limit imposed by the Executive approval for the original tranche of funding (EX32/2015).

3.0 Reasons for recommendation(s):

- 3.1 Blackpool Housing Company was established by the Council in 2015 primarily to address housing market failure within inner Blackpool. The Council has recently updated its housing strategy covering the period 2018-2023. One of the four priorities within that document is “Improving our private rented sector”. The work of the Company is inextricably linked to the delivery of that priority over the life of the strategy. If it is to deliver as required it will require funding beyond 2019 and this budgetary commitment will deliver both certainty of funding to the Company as well as key Council priorities. It will also ensure the maintenance of continuity of service to the Council of those functions performed by the Company.

In the Executive approval for the original tranche of funding a drawdown limit of £10m per year was imposed. It is considered that such a limit may now be obstructive to the company’s ability to flex future investment plans should viable opportunities present themselves and accordingly, no such limit is proposed in respect of this tranche.

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| 3.2a | Is the recommendation contrary to a plan or strategy adopted or approved by the Council? | No |
| 3.2b | Is the recommendation in accordance with the Council’s approved budget? | Yes |

- 3.3 Other alternative options to be considered:

These are outlined in the background information section at 5.6 onwards.

4.0 Council Priority:

- 4.1 The report addresses both of the Council priorities:
 - The Economy: Maximising growth and opportunity across Blackpool
 - Communities: Creating stronger communities and increasing resilience

The Housing Strategy develops on these themes and sets out the key role the Company will play in the delivery of Council priorities.

5.0 Background Information

5.1 Context

Much of the context behind the establishment (and subsequent funding) of the Company was set out in detail at the time. This remains relevant and some of the key issues are:

- The proportion of homes in the private rented sector in Blackpool jumped from 18% in 2001 to over 26% in 2011, compared with an England average of 17%.
- Over 80% of homes in the private rented sector are rented to people receiving Housing Benefit, compared with around 30% nationally.
- The dominance of poor quality private rented accommodation in inner neighbourhoods is the overriding cause of high levels of transience and wider social instability in these areas.
- Blackpool's private rented market continues to have very high yields due to the mismatch between average property prices and average rents, particularly for Homes in Multiple Occupation (HMOs).
- The preponderance of high levels of occupancy in poor quality accommodation has knock on effects in terms of health and wellbeing that adversely affect the prosperity and economic resilience of the town.

5.2 An aspirational business plan has recently been produced that would see the Company develop over 1,400 units over a longer period. It is proposed to commit funding to achieve approximately 950 units and review future funding during 2024/25 when the Housing Strategy will have been renewed. This is the funding commitment sought in this report.

5.3 The Company has acquired property to date to facilitate the production of over 300 quality homes for rent. Of these, 261 were in lettings at the end of the December 2018. It is early days in terms of making an in depth assessment on the Company's effectiveness in delivering its part in the wider housing strategy, but the initial signs are very encouraging with tenancy sustainability improving suggesting that a positive impact on transience is being made. Clearly the stock numbers are still low and greater volume needs to be brought through the company if it is to have a lasting social impact. However, the physical impact in many areas is immediately apparent with the removal of many problem buildings that were blighting the street scene and their replacement with high quality housing. Albert Road is a prime example of this with a similar impact currently being delivered on Kirby Road.

5.4 It is of positive note that valuations obtained for the 31 March 2018 Statement of Accounts revealed a positive asset re-valuation, demonstrating the value added by the Company.

- 5.5 To support the proposed programme, the total additional funding requirement over this period up to 2025 will be £40.8m. This would take the total investment to £68.4m. The additional funds will be raised from the Public Works Loan Board or an external funder should more advantageous terms be available. This will be provided to the company at a commercial rate on a similar basis to current arrangements.

It was initially proposed that in order to recoup this funding, the Company would sell the portfolio or part thereof. However, in light of the returns being achieved, both in terms of revenue yield and positive asset re-valuation, it currently makes sense to retain the portfolio. In the longer term, should it become difficult to obtain capital financing or should the portfolio's financial performance deteriorate, and the Council seeks to recoup its capital investment, there may be opportunities to dispose of the portfolio either as a whole or in part.

5.6 **Options appraisal**

- 5.7 Option 1 – do not provide additional resources for the Company

If the Council does not continue to support the Housing Company in this way it will be difficult to see how the Company can continue as a viable entity or achieve a strategic impact. The current level of stock holding would not sustain the existing structure. The Company could cut its workforce significantly but it would still make insufficient returns. A buyer for the Company could be sought but this would diminish Council control over delivering its own Housing Strategy.

- 5.8 Option 2 – Underwrite the Company but let it seek loans elsewhere.

As detailed above this has the disadvantage of the Council bearing the financial responsibility without the direct control.

- 5.9 Option 3 – Raise the money and lend it to the Company

The Council has more opportunity for raising money (and raising it cheaply) than the Company and can use its Treasury Management systems to maximise the value of these loans and draw downs. By having a direct relationship with the Company the Council can also set the parameters for draw down, borrowing and interest rates that work in the best interest of achieving the goals of the Company and to best protect the Council's financial position.

- 5.10 Does the information submitted include any exempt information?

No

To support the loan request the company has submitted a series of detailed financial projections. The proposals outlined would however undermine the Company's and extension the Council's position in continuing negotiations so this document is not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

5.11 **List of Appendices**

Appendix 7a – Company financial projections (Exempt)

6.0 **Legal considerations:**

6.1 The Council may use its General Power of Competence under Section 1 of the 2011 Act to acquire housing for rent in the General Fund, either directly or through an SPV. Although there is a requirement under section 4(2) of the 2011 Act that if the exercise of the Section 1 power is for a "commercial purpose" then the Council must use a company to do so.

6.2 The Council has obtained external legal advice which was that the Council has clear powers under sections 24 and 25 of the Local Government Act 1988 to provide financial assistance (which includes the making of a loan) to the Housing Company.

7.0 **Human Resources considerations:**

7.1 These were considered as part of the report to Council on the 21 January 2015 (EX56/2014) establishing the company.

8.0 **Equalities considerations:**

8.1 These were considered as part of the original report to Council on the 21 January 2015 to create the company and specifically that it will be important to secure the ongoing commitment of the company to the Council's equality ethos and to continue to deliver the specific "due regard" requirement under the Equality Act.

9.0 **Financial considerations:**

9.1 As the Company is wholly owned by the Council and will provide the substantial part of its services to the Council, the Council can benefit from the Teckal Exemption, which enables the Council to procure the services of the local authority controlled company directly without the need for carrying out a procurement process. If the Company is to have any private ownership/interest in the future, the Council will be required to carry out a procurement exercise in accordance with the Contract Procedure Rules depending on the role of the private partner and the purposes of the joint venture.

9.2 As this is not a joint venture the investment will be entirely from Council borrowing (either directly using Public Works Loan Board or supported through a guarantee if external finance is chosen) there isn't the option of a risk-share, therefore the benefits and risks of the investment will need to be closely monitored.

9.3 The outcomes and key assumptions underpinning the business model are set out in the Appendix 7a to the Executive report and are based on the assumptions which underpinned the original business plan as modified by experience to date.

9.4 The Council's Finance and Legal Teams will need to work together to ensure that the proposed loan does not constitute state aid.

10.0 Risk management considerations:

10.1 There is insufficient housing stock available that offers the target gross yield, thus reducing the potential to secure the intended portfolio size. An assessment has been undertaken of type and volume of properties that have been marketed for sale within the inner areas. It is felt that sufficient property is and will be available on the market to achieve the plan and enable an appropriate scale of intervention. The Company has diversified its approach to acquisition and, in addition to its own conversion projects is also acquiring "rolling investment", "turnkey" and, where they exist, "good to go" developments to ensure the flow of acquisitions delivers the business plan.

10.2 Housing needs change and the demand for properties of this nature change.

To a degree this is what the Council is seeking to achieve, however the proposal is to develop a portfolio of higher quality stock which will be much more resilient to market change than property of a lesser quality. Further mitigation is however possible by broadening the target occupier group, as well as the option to sell property if required.

10.3 The project does not break even over the life of the borrowing.

A financial model has been produced that makes assumptions on income and expenditure. This will be reviewed and updated over the life of the project to ensure the assumptions continue to be accurate. Exit strategies have been considered.

10.4 Redevelopment costs consistently exceed anticipated costs.

Robust financial monitoring and contract management systems have been established and monitored by the Company board and company senior management team. Acquisitions started slowly to ensure cost assumptions were deliverable before large numbers of properties were acquired. Major cost variations became apparent which led the Housing Company to explore other means of delivering units more economically, namely by acquiring "rolling investment", "turnkey" and "good to go" properties.

10.5 A wider risk assessment has been developed as part of the business plan which will be monitored by the Shareholder Panel of the Council.

11.0 Ethical considerations:

11.1 None.

12.0 Internal/ External Consultation undertaken:

12.1 Consultation has been undertaken internally within the Council, including, finance, legal and Human Resources advice. Expert legal advice has also been sought form Trowers Hamlins.

13.0 Background papers:

13.1 None

14.0 Key decision information:

14.1 Is this a key decision? Yes

14.2 If so, Forward Plan reference number: 1/2019

14.3 If a key decision, is the decision required in less than five days? No

14.4 If **yes**, please describe the reason for urgency:

15.0 Call-in information:

15.1 Are there any grounds for urgency, which would cause this decision to be exempt from the call-in process? No

15.2 If **yes**, please give reason:

TO BE COMPLETED BY THE HEAD OF DEMOCRATIC GOVERNANCE

16.0 Scrutiny Committee Chairman (where appropriate):

Date informed: 15 February 2019 Date approved: N/A

17.0 Declarations of interest (if applicable):

17.1 None.

18.0 Executive decision:

18.1 The Executive resolved as follows:

1. To agree that Appendix 7a, to the Executive report, Company financial projections is not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.
2. To authorise the Director of Resources to arrange a further committed loan facility for the benefit of the Company in the sum of £40.8million. This loan will allow the Company to deliver the plan approved in March 2017 and to cover the period to March 2025, enabling the assembly of a portfolio of circa 950 quality, affordable homes for rent in Inner Blackpool.
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4. To remove the £10m per year drawdown limit imposed by the Executive approval for the original tranche of funding (EX32/2015).

18.2 Date of Decision:

25 February 2019

19.0 Reason(s) for decision:

Blackpool Housing Company was established by the Council in 2015 primarily to address housing market failure within inner Blackpool. The Council has recently updated its housing strategy covering the period 2018-2023. One of the four priorities within that document is "Improving our private rented sector". The work of the Company is inextricably linked to the delivery of that priority over the life of the strategy. If it is to deliver as required it will require funding beyond 2019 and this budgetary commitment will deliver both certainty of funding to the Company as well as key Council priorities. It will also ensure the maintenance of continuity of service to the Council of those functions performed by the Company.

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19.1 Date Decision published:

26 February 2019

20.0 Executive Members in attendance:

20.1 Councillor Campbell, in the Chair

Councillors Benson Cain, Cross, Jackson, Kirkland, Smith, I Taylor and Mrs Wright

21.0 Call-in:

21.1

22.0 Notes:

22.1