

Report to:	EXECUTIVE
Relevant Officer:	Alan Cavill, Director of Place
Relevant Cabinet Member	Councillor Gillian Campbell, Deputy Leader of the Council (Tourism, Economic Development and Jobs)
Date of Meeting :	20 th July 2015

FUNDING FOR THE WHOLLY OWNED HOUSING REGENERATION COMPANY

1.0 Purpose of the report:

1.1 Following the decision of the Council on the 21st January 2015, the Housing Company has now been established and is ready to begin its work. In order to do this the Council would need to authorise its financing and the transfer of resources to that body to allow it to begin this task in earnest. The Executive has previously agreed through decision EX16/2015 to apply through the Growth Deal for Lancashire to formally request a discounted rate through the Public Works Loan Board.

2.0 Recommendation(s):

2.1 To authorise the Director of Resources to: -

- Draw down the funding offered in the Growth Deal of £26m from the Public Works Loans Board (as outlined in previous decision EX16/2015) or from another source if that is more favourable.
- To transfer money for or pay resources for the company to carry out the duties it will take over on behalf of the Council such as Blackpool Lets.
- Transfer £1.6m of earmarked resources received from Homes and Communities Agency to the company.
- Put in place a quarterly monitoring system and allow the transfer of the above-mentioned Public Works Loan Board resources to be transferred to the company over a period of 3 years at a rate of not more than £10m per year. Also to set a commercial loan interest rate for this money that is greater than that at which is being borrowed and meets state aid legislation but permits the activity to take place.

2.2 To agree in principle to transfer any property that was acquired for purposes that have now passed to the Housing Company and note that the terms of each transfer will be subject to a decision of the relevant Cabinet Member.

3.0 Reasons for recommendation(s):

3.1 Housing market failure within Blackpool is considered to have significantly adverse impacts on the health and wellbeing of residents and on the overall economic vitality of the town. The commencement of activity in respect of the wholly owned housing company will enable a more proactive approach to be taken to help secure a stronger housing market that meets Blackpool residents housing needs.

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 5.11 onwards

4.0 Council Priority:

4.1 The relevant Council Priorities are:

- Improve health and well-being especially for the most disadvantaged
- Attract sustainable investment and create quality jobs
- Improve housing standards and the environment we live in by using housing investment to create stable communities
- Create safer communities and reduce crime and anti-social behaviour

5.0 Background Information

5.1 Context

The private rented sector has an increasingly important role in meeting Blackpool's housing needs. It is growing rapidly and there are many examples of good quality and well maintained properties providing safe, warm and secure homes for many people. Blackpool's coastal legacy however has led to a substantial concentration of small poor quality rental units as guesthouses have been converted into flats and HMOs. Most accommodation seeks to meet the most basic standards to comply with the Housing Act 2004 requirements, but is not desirable accommodation. These properties offer a low standard of accommodation and are often poorly managed. The result is that it is a housing choice of last resort for people with few housing options available to them.

- 5.2 The proportion of homes in owner occupation in Blackpool dropped from 71% of all homes in 2001 to 62% of all homes in 2011, compared with an England average of 64%. This has been a dramatic shift in tenure whilst the proportion of social rented has remained at just under 11%, compared with a national average of 18%. The proportion of homes in the private rented sector however jumped from 18% in 2001 to over 26% in 2011, compared with an England average of 17%, a rise of nearly 5,500 homes.
- 5.3 Over 80% of homes in the private rented sector are rented to people receiving Housing Benefit, compared with around 30% nationally. There is a concentration of private renting in Blackpool's inner wards – 50% of all households in the defined inner area live in a privately rented home, equivalent to 6,887 households.
- 5.4 The dominance of poor quality private rented accommodation in inner neighbourhoods is the overriding cause of high levels of transience in these areas. Poor quality housing is generally only accessed by households who are unable to access better housing choices, and there is continuing demand from people attracted to the town from deprived urban areas in other parts of the UK. This means that many people moving into the area have no real association with the community and are likely to quickly move on again. Analysis of new Housing Benefit claimants has shown that 85% of new claimants come from outside the borough – around 4,500 households each year – and that 70% of these move into rented accommodation in the inner wards.
- 5.5 This transient dynamic leads to intense concentrations of deprivation, and an environment that fosters poor health and a lack of opportunity for residents. Low life expectancy and mental health problems in these areas are amongst the worst in the country. The poor environment and endemic social problems in the inner town have a serious negative effect on tourism, which continues to be the town's major economic sector. Investment is reduced and skilled individuals who could drive investment in the local economy live elsewhere.
- 5.6 This leads to the Council and other public services having to commit significant resources in responding to social care, health and educational needs and to ensure properties meet basic minimum standards. In spite of this little progress is being made to stem the high levels of social deprivation and poor housing conditions in large parts of the town's inner areas.
- 5.7 There are continuing financial incentives for property owners to use former guesthouses as rented accommodation let to people on Housing Benefit because of continuing long term decline in demand for traditional guest house accommodation from holiday makers and the high yields associated with letting rented property to Housing Benefit claimants in Blackpool. The initial returns are greatest for small flats and where investment in the quality of accommodation is minimised
- 5.8 A recent HSBC market analysis showed Blackpool's private rented market to have the highest yields in the UK when average property prices are compared to average

rents, and yields can be very much higher still for Homes in Multiple Occupation accommodation

- 5.9 Not only does this economic model deliver unstable communities constantly seeing a change of population it also exerts a massive strain on public services as new residents drawn to the ready supply of accessible accommodation bring with them a range of embedded and enduring problems that get referred to public services already under strain.
- 5.10 Intervening in the housing market to change the current dynamic is essential if the efforts of public services to improve the life chances of residents and to transform Blackpool's deprived inner areas into thriving neighbourhoods are to be successful. This has been recognised by Central Government through the Growth Deal announcement in July of this year. The Council has been offered preferential borrowing to assist the Council to intervene directly in the housing market. The details of this offer have now been determined and the required Treasury approval has now been obtained.
- 5.11 Options appraisal
- 5.12 Option 1 – do not provide resources for the company
- 5.13 If the Council does not support the Housing Company in this way it will be difficult to see how the work can begin. The company could approach other financial sources but would be unlikely to be successful unless the Council was to underwrite its position. In effect this would mean the Council would still be taking the financial risk but without any of the Control measures that come with providing the money from the Council.
- 5.14 Option 2 – Underwrite the company but let it seek loans elsewhere.
- 5.15 As detailed above this has the disadvantage of the Council bearing the financial responsibility without the direct control.
- 5.16 Option 3 – Raise the Money and lend it to the Company
- 5.17 The Council has more opportunity for raising money 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. The Executive through decision EX16/2015 has already applied for a 40 point discount through the Growth Deal for Lancashire on the Public Works Loan Board for Housing Company work.

5.18 Finance Background

5.19 The company will be incurring significant expenditure through its development programme and will also need to have effective income management systems in place. A Financial Manager will be appointed to manage, monitor and control expenditure and revenue.

5.20 Initial phases of the programme will be funded through Prudential Borrowing using Public Works Loan Board funding on lent to the Housing Company. The expectation however is that once revenue streams are established and the portfolio is stabilised and of sufficient scale, that external finance may be secured. This will enable early repayment of the Council borrowing or a further expansion of the portfolio and a dispersal of commercial risk. The funding will be guaranteed from the General Fund and therefore show on the Council's balance sheet, the level of risk the Council is exposed to will need to be carefully considered and regularly assessed. 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.

5.21 Term of loan-finance will be secured following independent advice. The Council will build flexibility into the company structure to enable it to respond to market conditions and to release value as appropriate as conditions vary.

5.22 Does the information submitted include any exempt information?

No

5.23 List of Appendices

None

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 to Council on the 21st January 2015 the establishing the company.

8.0 Equalities considerations:

- 8.1 These were considered as part of the original report to Council on the 21st 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 will be 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.

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 enable an appropriate scale of intervention.

- 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 will be established and monitored by the company board and company senior management team. Acquisitions will start slowly to ensure cost assumptions are deliverable before large numbers of properties are acquired. Major cost variations in refurbishment projects tend to become apparent during the early stripping out phases of construction will be able opportunities to reduce costs elsewhere through scope of works if absolutely necessary to avoid significant cost over runs.

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? No, this decision is subsequent to previous key decision EX16/2015

14.2 If so, Forward Plan reference number:

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: N/A Date approved: N/A

17.0 Declarations of interest (if applicable):

17.1

18.0 Executive decision:

18.1

18.2 Date of Decision:

19.0 Reason(s) for decision:

19.1 Date Decision published:

20.0 Executive Members in attendance:

20.1

21.0 Call-in:

21.1

22.0 Notes:

