

Council Loan to Homes for Wells to Enable Purchase of Two Properties	
Executive Summary	<p>The delivery of new affordable housing is a key priority for the Council. This is an opportunity to support the delivery of two affordable homes and support the work of a partner community-led housing organisation.</p> <p>The support takes the form of a loan of £110,000 at commercial rates and at minimal risk to the Council.</p>
Options considered	<p>The alternatives are:</p> <p>a) To provide a loan for one property only.</p> <p>b) Not to provide any loan funding at all.</p>
Consultation(s)	<p>Cllr. Wendy Fredericks – Portfolio Holder.</p> <p>Finance team – support for and terms of the loan.</p> <p>Homes for Wells – amount of loan and number of properties.</p>
Recommendations	<p>This is a <u>resolution</u> for Cabinet to approve a loan of £110,000 to Homes for Wells to help with the purchase of two properties.</p>
Reasons for recommendations	<p>The two homes will provide affordable housing for low-income households from the Homes for Wells waiting list.</p>
Background papers	<p>No other background papers.</p>

Wards affected	Wells with Holkham
Cabinet member(s)	Cllr. Wendy Fredericks
Contact Officer	Graham Connolly, Housing Strategy and Delivery Manager, graham.connolly@north-norfolk.gov.uk

Links to key documents:	
Corporate Plan:	This proposal supports the Council's Local Homes for Local Need by facilitating new homes and by using loan funding to achieve that aim.
Medium Term Financial Strategy (MTFS)	No links to the MTFS.
Council Policies & Strategies	This proposal supports the Council's aim to provide more affordable housing in the district.

Corporate Governance:	
Is this a key decision	Yes
Has the public interest test been applied	Not exempt.
Details of any previous decision(s) on this matter	Cabinet approved a previous loan to Homes for wells in February 2020.

1. Purpose of the report

- 1.1 This report seeks Cabinet approval to a loan of £110,000 to Homes for Wells to support their purchase of two additional homes in Wells.
- 1.2 Homes for Wells will use these homes to house low-income households from their waiting list.

2. Introduction & Background

Overview

- 2.1 Across the district there is a shortage of affordable housing for people who cannot afford to rent or buy a home in the market. The situation in Wells is made worse by the shortage of homes for rent and very high house prices relative to local wages.
- 2.2 Homes for Wells is a community-led housing group (and registered with Homes England as a Registered Housing Provider). Homes for Wells has the opportunity to purchase two properties which the Flagship Housing Group (Flagship) is selling. Homes for Wells seek financial support from the Council to purchase these two homes. Homes for Wells will use the two properties to provide homes for low-income households on their waiting list.
- 2.3 As part of their asset management strategy Flagship has a programme of investment in new and existing property. For a small number of properties Flagship determines that disposal is the best option. Flagship uses the proceeds of sales to help support its programme of new development. Property disposals by Flagship are controversial. Often the new properties are not in the same places as the sold properties. However, in the case of Wells Flagship has replaced old homes with new.
 - a) Market Lane – 40 affordable rent 2016/17 and 2017/18.
 - b) Nielson Close – four affordable rent and two shared ownership 2020/21.
- 2.4 Homes for Wells has arranged for surveys of the two properties and with relatively modest maintenance work the two properties will provide good quality homes.

3. Proposals and Options

- 3.1 This report recommends that Cabinet approve a loan of £110,000 to Homes for Wells to help with the purchase of two homes.
- 3.2 In addition the Council will provide grant of £50,000 to help with the purchase of one of the properties. The grant is from the Community Housing Fund (CHF) monies held by the Council. The Portfolio Holder and Chief Executive have delegated authority to decide on the award of the grant.
- 3.3 Appendix 1 – shows the business plan for the proposed two property purchases. With the support from the loan and grant funding Homes for

Wells can meet the cost of purchasing both properties. They also project a modest surplus of income over spending (net contribution to reserves). This demonstrates that Homes for Wells is able to meet to costs of maintaining and managing the two properties, including making loan repayments to the Council.

Interest on the Loan

3.4 The interest rate on the loan of 5.5% is marginally above the interest rate charged to the Council by the Public Works Loan Board (PWLB). This is important for two reasons.

- 1) It ensures the Council is charging a commercial rate for the loan and there is therefore no risk of 'state aid'.
- 2) If the Council needs to borrow from the PWLB to fund the loan there is no net cost to the Council. Alternatively if the Council funds the loan from internal reserves the interest received represents a fair return for the use of those reserves.

Whilst interest rates are likely to rise we do not anticipate further increases before Cabinet take the decision to approve the loan on 29th June (assuming the decision is to approve).

Rents

3.5 It is usual for the Council to require grant and loan recipients to let their properties at affordable rents. An affordable rent is a rent capped by the lower of 80% of the local market rent and the local housing allowance (LHA).

3.6 In this case the proposal is that Homes for Wells let one of the properties at an affordable rent and the other at an intermediate rent of no more than 80% of market rent. The following table illustrates the proposal.

Property	Local Housing Allowance	Proposed Rent	Market Rent (across district)
1a Northfield	£575	£575	£675 - £1,450
5 Gales Road	£675	£850	£850 - £1,450

There are no properties currently advertised for rent in Wells or nearby. The market rent comparisons are for properties currently available (as at 15th June 2023) across the district. Based on historic rents in Wells the proposed rent of £850 for Gales Road is no more than 80% of market.

3.7 A household dependent upon benefits can claim rent up to LHA. So 1a Northfield would be suitable for a household in receipt of benefits but 5 Gales Road would not. Instead 5 Gales Road would be suitable for a working household. It would be very attractive to a family with one or more incomes but who have no hope of buying or renting in the market. A group Homes for Wells is keen to support.

3.8 Affordable rent is a priority for the Council and the proposed grant is therefore directed entirely at 1a Northfield. Intermediate rent is not suitable for all households in housing need. However, it does meet the needs of many households and for this reason this report proposes supporting 5 Gales Road with loan (but not grant) funding.

Funding Agreement and Loan Agreement

- 3.9 Eastlaw will provide a funding agreement and a loan agreement covering the grant and loan. These agreements between the Council and Homes for Wells will ensure that Homes for Wells repay grant if they sell 1a Northfield and will ensure the Council loan is secured against the properties via a charge on the properties.

Options

- 3.10 Homes for Wells initially looked at four properties, one of which has since sold. It was clear from our discussions with Homes for Wells that the purchase of the remaining three properties stretched their available reserves too thinly. After discussion Homes for Wells and the Housing Strategy team have come up with this proposal for a two property purchase.
- 3.11 The alternatives are to offer support to one property only or to none of the properties.
- 3.12 Either property would work as a single purchase. For the Council our preference would be 1a Northfields which let at an affordable rent. Homes for Wells would choose 5 Gales Road because they need larger three-bed homes for existing tenants who are over-crowded.
- 3.13 Arguably there is no cost to the Council of funding two rather than one property. The second, 5 Gales Road, requires loan funding only and will provide a commercial return to the Council.
- 3.14 The option of supporting neither will retain £50,000 grant which the Council could use to support delivery of an alternative affordable home. However, £50,000 is only sufficient to support one home and it is better to deliver this now rather than at some future and uncertain date.
- 3.15 In summary supporting the purchase of two homes provides the maximum benefit to both the Council and to Homes for Wells.

4. Corporate Priorities

- 4.1 In the Corporate Delivery Plan - Local Homes for Local Need - there is an overarching objective to facilitate new housing, 'There is a significant local need for housing across the district. Enabling and facilitating new housing of the right type, quality and affordability will therefore, be a key priority for the Council and, working with a variety of partners, we will explore all available avenues to increase the supply of quality, affordable housing to address this need'.
- 4.2 More specifically the Corporate Delivery plan (Objective 5.2) says, 'Investigate ways to support and assist affordable housing providers, including the potential for a Council loan scheme for Registered Providers to facilitate a supply of affordable homes for our communities, whilst supporting the Council's financial sustainability.'

5. Financial and Resource Implications

- 5.1 The proposed loan is at a commercial rate and does not have any financial implications for the council.
- 5.2 The associated staff time of agreeing the loan and legal documents can be met through existing staff resources.

6. Legal Implications

- 6.1 To avoid any state aid implications the Council will set an interest rate at or just above that set by the PWLB and which is comparable to market rates.

6.2 Eastlaw will prepare a formal loan agreement and a charge on the properties will ensure the loans are secure.

7. Risks

7.1 The main risk is non-repayment of the loan by Homes for Wells. The Council is protected against this risk because:

- a) Homes for Wells is a long-standing and well managed organisation with Board members with appropriate skills and experience.
- b) The Business plan for the two properties (see appendix 1) makes reasonable assumptions about ongoing costs and income.
- c) The loans will be secured by means of a charge on the properties. The Council could use this security to ensure loan repayment.

8. Net Zero Target

8.1 The Council will not own the properties and so supporting Homes for Wells to purchase the homes will not impact on the Council's carbon emissions.

8.2 Homes for Wells will carry out improvement works to the homes including works to improve energy efficiency. These works will contribute to the reduction of carbon emissions across the district.

9. Equality, Diversity & Inclusion

9.1 Assisting Homes for Wells to provide additional affordable housing will help provide equality of opportunity for those housed – a home which is affordable and meets the housing needs of the household occupying the home.

10. Community Safety issues

10.1 There are no community safety issues.

11. Conclusion and Recommendations

11.1 The delivery of new affordable housing is a key priority for the Council. This is an opportunity to support the delivery of two affordable homes and support the work of a partner community-led housing organisation.

11.2 The support takes the form of a loan of £110,000 at commercial rates and at minimal risk to the Council.

11.3 This report recommends that Cabinet approve a loan of £110,000 to Homes for Wells to help with the purchase of two properties.

Appendix 1 - Business Plan for Proposed Two Property Purchase

<u>NNDC loan and grant</u>			
	Affordable		Intermediate contribution from reserves
	Two Bed		Three Bed
	1a Northfield		5 Gales Road
<i>Acquisition Costs</i>	£s		£s
Cost Per Property	150,000		250,000
Refurb Cost Per Property	8,500		35,000
Legal and Survey Fees Per Property	1,500		2,000
Total Acquisition Costs	160,000		287,000
Cash paid from reserves	67,500		219,500 287,000
percentage of price that is loan	27%		24%
NNDC loan	42,500		67,500
NNDC grant	50,000		
Total Funding For Acquisition	160,000		287,000
On-going running costs			
Rent Per Property Per Month	575		850
Annual Rent Per Property	6,900		10,200
Bad Debt 5%	-345.01		-510.00
Void 2.5%	-172.50		-255.00
Net Rent Per Property	6,383		9,435
Annual Insurance Per Property	400		500
Annual On-going Repairs Per Property 15%	1,035		1,530
Annual Other Admin Per Property	500		500
Annual Contribution Per Property	4,448		6,905
Interest Rate On Loan	5.50%		5.50%
Years Repayable	15		15
Loan repayment	(4,234.09)		(6,724.73)
Net Annual Contribution	213.51		180.27