

## Providing Mortgage Loan Funding for Homes for Wells

**Summary:** The Council has as a Corporate objective the aim of exploring the possibility of a Council loan scheme to registered providers (RPs) to help secure the delivery of affordable homes in the district. Homes for Wells, a community-led housing group and RP needs assistance to deliver four affordable homes in Wells. This provides an opportunity for the Council to trial a loan scheme and at the same time help secure additional affordable housing in the district.

**Options considered:**

1. Do not provide a loan for Homes for Wells. Without a loan Homes for Wells will be able to purchase two properties only.
2. Provide additional grant funding. This is not necessary, Homes for Wells can afford a loan and a loan generates a return for the Council.

**Conclusions:** The proposed purchase of four Flagship properties by Homes for Wells presents an opportunity for the Council to support the delivery of affordable housing and to deliver on a Corporate objective of providing loan finance to assist affordable housing delivery.

**Recommendations:** Cabinet support the proposal to offer mortgage loan finance for Homes for Wells to allow Homes for Wells to purchase of four homes to let to key workers in Wells.

**Reasons for Recommendations:** To provide authority for the Council to provide mortgage loan finance of £192,675 to Homes for Wells.

### LIST OF BACKGROUND PAPERS AS REQUIRED BY LAW

*(Papers relied on to write the report, which do not contain exempt information and which are not published elsewhere)*

Community Housing Fund Feb 2017 Community Housing Fund Update Oct 2017
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Cabinet Member(s) Councillor Greg Hayman	Ward(s) affected Wells with Holkham
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## **REPORT FOR CABINET – Providing Mortgage Loan Funding for Homes for Wells**

### **1 Introduction**

- 1.1 Homes for Wells is a community-led housing group which provides housing at affordable rents for key workers in Wells and the nearby parishes.
- 1.2 Homes for Wells has an option to buy four homes in Wells from Victory Housing Trust/Flagship. Homes for Wells can afford to buy two properties using donations, reserves and a grant from the Council's Community Housing Fund (CHF). Homes for Wells will require mortgage finance from the Council in addition to CHF grant to purchase the remaining two homes.
- 1.3 Mortgage loan finance fits the overarching corporate objective of supporting housing delivery and meets the more specific aim of exploring the possibility of providing loan finance to support housing associations to deliver more homes.
- 1.4 If approved, the Council intend to use internal borrowing to fund the loan. (There is also an option of borrowing from the PWLB if needed). This is subject to ensuring the onward loan is secure and financially viable for the council. In addition the Council has to ensure the loan does not constitute state aid. Our due diligence shows that a loan to Homes for Wells is secure and will not constitute state aid.
- 1.5 This report considers a loan specifically for Homes for Wells. If approved the Council could consider similar loans to other RPs and Community-led housing groups in the future. The larger RPs such as Flagship, Broadland Housing Group and Clarion have secure sources of loan finance and are unlikely to need assistance from the Council. However, the smaller Community-led groups may require loan finance in the future.

### **2 Options**

#### **2.1 Do not provide Mortgage Loan Finance**

Homes for Wells cannot afford to buy all four homes without mortgage loan finance. With support from the Community Housing Fund Homes for Wells is able to buy two homes without loan finance from the Council. In consequence the loan, if agreed, will provide two additional affordable homes.

#### **2.2 Provide Additional Grant to Homes for Wells instead of a Loan**

Homes for Wells has not asked for additional grant and the Homes for Wells Business Plan expects that part of their rent income will be used to make capital and interest payments on borrowing. Providing additional grant is therefore unnecessary and would not be the best use of limited Community Housing Fund monies.

### **3 Background to Homes for Wells Proposed Purchase of Four Homes**

#### **3.1 This section of the report provides background information:**

- Local housing need in Wells and how Homes for Wells helps meet this housing need.
- How the Council uses CHF monies to grant fund community-led housing groups and so help deliver affordable homes in the district.
- Explains why Homes for Wells will require loan finance in addition to CHF.
- Considers the rationale for funding the purchase of properties currently owned by Flagship/VHT.

### Local Housing Need

- 3.2 Homes for Wells operates its own waiting list which gives priority to key workers. The Homes for Wells website provides more information on eligibility which covers a very wide range of jobs essential to the local community including NHS staff, people working in local schools and local fishermen. <https://homesforwells.com/how-to-apply#fd923e5e-17e1-4f08-aa4a-e81f1bddeaef>
- 3.3 Homes for Wells has provided information about how they would allocate the properties they buy to people on their waiting list. See appendix 1 for details.
- 3.4 As at 1<sup>st</sup> December 2020 there are 147 households on the Council's housing list who have a local connection to Wells and the adjoining parishes through current residence, former residence, work and/or close family. Most of these households (124) need one and two-bed homes of the type Homes for Wells propose to buy.
- 3.5 It is likely that some of the households housed by homes for Wells are also on the Council's housing list.

### Community Housing Fund (CHF)

- 3.6 In 2016/17 the Council received £2,436,942 Community Housing Fund monies from the Government. The Council split this into revenue expenditure (£569,715) and capital expenditure (£1,867,227).
- 3.7 The Council uses the capital expenditure budget to help grant fund community-led housing groups to deliver affordable homes. The Chief Executive and Portfolio Holder have delegated authority to approve grant applications.

### Homes for Wells Loan and CHF Grant Application

- 3.8 A Community Housing Fund (CHF) grant of £157,125 was approved on the 24 September 2020 to assist Homes for Wells in the purchase of four properties in Wells-next-the-Sea (3, 3a, 4 and 4a Northfield Way).
- 3.9 Unfortunately Homes for Wells are unable to raise mortgage finance from their usual funding source and have not been able to find a suitable alternative.
- 3.10 Council officers have discussed with Homes for Wells the possibility of providing mortgage loan finance. In response Homes for Wells have resubmitted their application for grant funding in two parts. Homes for Wells request CHF grant funding for the first application. Homes for Wells seek both CHF grant funding and mortgage loan finance for the second application.
  1. The first application will cover the purchase of 3 and 3a Northfield Way at a cost of £263,250 and will require grant funding of £78,975. Homes for Wells will fund the balance of the cost from donations and reserves.
  2. The second application will cover the purchase of 2a and 7a Northfield Way at a cost of £275,250. Homes for Wells seek grant funding of £82,575 and mortgage loan finance of £192,675.

### Northfield Way

- 3.11 Victory Housing Trust/Flagship has seven flats in Northfield Way which it wishes to sell. Homes for Wells hopes to purchase four flats 2a, 3, 3a and 7a. In addition a local charity, Wells United Charities (WUC), may purchase flats 4 and 4a and let them through Homes for Wells. WUC will let 4 and 4a through Homes for Wells at affordable rents and they will be available to house key workers. WUC want to purchase a freehold block and so Homes for Wells has substituted 2a and 7a for 4 and 4a in their current funding application.
- 3.12 There is understandably some concern about using CHF money to fund the purchase of properties which are already in public ownership. Flagship recycle capital receipts to

provide other affordable housing. Flagship has a large development programme in the district which we project will deliver 70 new homes in the district this year including six new homes in Wells. In consequence helping to fund these purchases helps to both retain existing affordable housing and fund new affordable housing in the district.

#### **4 Corporate Plan Objectives**

- 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 amount of money requested to be loaned to Homes for Wells will be funded from internal borrowing. This usually creates a charge to the taxpayer which is called Minimum Revenue Provision (MRP). However, we can use the principle repayment of the loan to off-set against this charge so there is no bottom line impact.
- 5.2 The current proposed interest rate is 3%. Our current average rate of return over the whole of the Council's investment portfolio is 2.35% which compares favourably with this figure. As this interest rate is higher than the current average investment rate, the income generated will be more than the opportunity cost of capital, resulting in an overall benefit to the Council.

#### **6 Sustainability**

- 6.1 Financial Sustainability - Officers in the Council's finance team have looked at the Homes for Wells business model, accounts and other background information. Officers conclude that the proposed loan is sustainable for Homes for Wells and that a loan to Homes for Wells secured on the four properties will be secure.
- 6.2 Investment Sustainability – Homes for Wells allow for a programme of improvement works to bring the properties up to good condition prior to letting. Thereafter Homes for Wells will carry out reactive and planned maintenance as required to keep homes in good condition.

#### **7 Legal implications**

- 7.1 To avoid any state aid implications, an interest rate which is comparable to market rates will be selected.
- 7.2 The loan will be backed by a formal loan agreement which will be agreed with Eastlaw.
- 7.3 The Local Government Act 1988 s24 (1) gives local authorities power to provide financial assistance for privately let (i.e. not local authority) housing accommodation.

#### **8 Communications issues**

- 8.1 If Homes for Wells proceeds with their purchase with loan funding from the Council there will be an opportunity for news stories which will demonstrate the Council's commitment to deliver Local Homes for Local Need.
- 8.2 Separately, the Council will want to promote the possibility of the potential for loan funding with RPs and specifically with smaller Community-led groups.

## **9 Risks**

- 9.1 The risks are predominantly financial risks; credit risk (the risk of the counterparty being unable to repay the loan) and risk that interest rates rise, making this a less attractive investment. A due diligence process has been carried out on Homes for Wells by the Council's finance team, which suggests that the counterparty is at a relatively low risk of default. As further mitigation, the loan will be covered by collateral in the form of property.
- 9.2 Interest rates are forecast to remain low in the long term, which means this loan is unlikely to represent a poor investment.

## **10 Equality and Diversity**

- 10.1 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.

## **11 Section 17 of the Crime and Disorder Act**

- 11.1 The Council will not increase the risk of crime and disorder by making a mortgage loan to Homes for Wells.

## **12 Conclusions and Recommendations**

- 12.1 The proposed purchase of four Flagship properties by Homes for Wells presents an opportunity for the Council to support the delivery of affordable housing and to deliver on a Corporate objective of providing loan finance to assist affordable housing delivery.

### Recommendations:

- 12.2 Cabinet support the proposal to offer mortgage loan finance of £192,675 to Homes for Wells to allow Homes for Wells to purchase of four homes to let to key workers in Wells.